

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57898

HOUSING AUTHORITY OF ASOTIN COUNTY

Asotin County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: December 13, 1996

TABLE OF CONTENTS

	Page
Management Section	
Independent Auditor's Report On Compliance With Laws And Regulations At The Financial Statement Level (Plus Additional State Compliance Requirements Per RCW 43.09.260)	M-1
Independent Auditor's Report On Internal Control Structure At The Financial Statement Level	M-3
Financial Section	
Independent Auditor's Report On Financial Statements Of HUD Supported Programs	F-1
Financial Statements:	
Balance Sheet) Public Housing (SF-45) - 1995	F-3
Balance Sheet) Section 8 (S-0128E) - 1995	F-6
Statement Of Operating Receipts And Expenditures) Public Housing (SF-45) - 1995	F-9
Statement Of Income And Expense And Changes In Accumulated Surplus Or Deficit From Operations) Public Housing (SF-45) - 1995	F-11
Statement Of Revenues And Expenditures) Section 8 (S-0128E) - 1995	F-13
Notes To Financial Statements	F-14
Independent Auditor's Report On Financial Statements Of Locally Funded Programs	F-21
Additional Information:	
Balance Sheet) Local Fund - 1995	F-22
Statement Of Revenues, Expenditures And Changes In Fund Balances) Local Fund - 1995	F-23
Single Audit Section	
Independent Auditor's Report On Supplementary Information Schedule Of Federal Financial Assistance	S-1
Schedule Of Federal Financial Assistance - 1995	S-2
Independent Auditor's Report On Compliance With The General Requirements Applicable To Federal Financial Assistance Programs	S-3
Independent Auditor's Report On Compliance With Specific Requirements Applicable To Major Federal Financial Assistance Programs	S-5
Independent Auditor's Report On Compliance With Specific Requirements Applicable To Nonmajor Federal Financial Assistance Program Transactions	S-7
Independent Auditor's Report On Internal Control Structure Used In Administering Federal Financial Assistance Programs	S-8
Schedule Of Federal Findings:	
1. Public Funds Were Misappropriated And Accounting Records Were Falsified By The Former Executive Director	S-12
2. Public Funds Were Misappropriated By The Former Executive Director	S-15
3. Internal Controls Over Fixed Assets Should Be Improved	S-17
Schedule Of Questioned Costs	S-20
Addendum	
Directory Of Officials	A-1

HOUSING AUTHORITY OF ASOTIN COUNTY
Asotin County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Chairperson of the Board of Commissioners
Housing Authority of Asotin County
Clarkston, Washington

We have audited the financial statements, as listed in the table of contents, of the Housing Authority of Asotin County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 26, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Housing Authority of Asotin County is the responsibility of the housing authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the housing authority's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the housing authority complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the housing authority's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the housing authority and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

We noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the housing authority's management in our reports on general requirements and specific compliance for nonmajor program transactions, and in the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the chairperson of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 26, 1996

HOUSING AUTHORITY OF ASOTIN COUNTY
Asotin County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Chairperson of the Board of Commissioners
Housing Authority of Asotin County
Clarkston, Washington

We have audited the financial statements of the Housing Authority of Asotin County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 26, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the housing authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the housing authority, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted reportable conditions that we believe to be material weaknesses, which are identified in the Schedule of Federal Findings accompanying this report.

We noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the housing authority's management in our reports on general requirements and specific compliance for nonmajor program transactions, and in the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the chairperson of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 26, 1996

HOUSING AUTHORITY OF ASOTIN COUNTY
Asotin County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Financial Statements Of HUD Supported Programs

Chairperson of the Board of Commissioners
Housing Authority of Asotin County
Clarkston, Washington

We have audited the accompanying financial statements of the programs supported by the U.S. Department of Housing and Urban Development (HUD) of the Housing Authority of Asotin County, Washington, as of and for the fiscal year ended December 31, 1995. These financial statements are the responsibility of the housing authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the HUD supported programs of the housing authority and are not intended to present fairly the financial position and results of operations of the Housing Authority of Asotin County, taken as a whole, in conformity with generally accepted accounting principles.

The housing authority's policy is to prepare its financial statements referred to above on the basis of accounting practices prescribed or permitted by HUD, which is a basis of accounting other than generally accepted accounting principles. The accounting practices prescribed by HUD differ from generally accepted accounting principles, including the lack of required note disclosures. The effects of these departures from generally accepted accounting principles are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial positions of the HUD supported programs of the Housing Authority of Asotin County as of December 31, 1995, or the results of their operations for the fiscal year then ended.

However, in our opinion, such financial statements present fairly, in all material respects, the financial positions of the HUD supported programs of the Housing Authority of Asotin County at December 31,

1995, and the results of their operations for the fiscal year then ended, in conformity with the prescribed basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 26, 1996, on our consideration of the housing authority's internal control structure and a report dated August 26, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

August 26, 1996

HOUSING AUTHORITY OF ASOTIN COUNTY
Asotin County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Financial Statements Of Locally Funded Programs

Chairperson of the Board of Commissioners
Housing Authority of Asotin County
Asotin, Washington

We have audited the accompanying financial statements of the locally funded programs of the Housing Authority of Asotin County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the housing authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the locally funded programs of the housing authority and are not intended to present fairly the financial position and results of operations of the Housing Authority of Asotin County, taken as a whole, in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the locally funded programs of the Housing Authority of Asotin County as of December 31, 1995, and the results of its operations for the fiscal year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 26, 1996, on our consideration of the housing authority's internal control structure and a report dated August 26, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

August 26, 1996

HOUSING AUTHORITY OF ASOTIN COUNTY
Asotin County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Chairperson of the Board of Commissioners
Housing Authority of Asotin County
Clarkston, Washington

We have audited the financial statements of the Housing Authority of Asotin County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 26, 1996. These financial statements are the responsibility of the housing authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the Housing Authority of Asotin County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

August 26, 1996

HOUSING AUTHORITY OF ASOTIN COUNTY
Asotin County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Chairperson of the Board of Commissioners
Housing Authority of Asotin County
Clarkston, Washington

We have audited the financial statements of the Housing Authority of Asotin County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 26, 1996.

We have applied procedures to test the housing authority's compliance with the following requirements applicable to its federal financial assistance program, which is identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance program:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the housing authority's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the housing authority had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the chairperson of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 26, 1996

HOUSING AUTHORITY OF ASOTIN COUNTY
Asotin County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Chairperson of the Board of Commissioners
Housing Authority of Asotin County
Clarkston, Washington

We have audited the financial statements of the Housing Authority of Asotin County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 26, 1996.

We also have audited the housing authority's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- eligibility
- reporting
- special tests and provisions related to contract rent and utility allowance limitations and ensuring that housing quality standards are met as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- and claims for advances and reimbursements

The management of the housing authority is responsible for the housing authority's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the housing authority's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Housing Authority of Asotin County complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the chairperson of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 26, 1996

HOUSING AUTHORITY OF ASOTIN COUNTY
Asotin County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Chairperson of the Board of Commissioners
Housing Authority of Asotin County
Clarkston, Washington

We have audited the financial statements of the Housing Authority of Asotin County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 26, 1996.

In connection with our audit of the financial statements of the housing authority and with our consideration of the housing authority's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the housing authority's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the Housing Authority of Asotin County had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the chairperson of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 26, 1996

HOUSING AUTHORITY OF ASOTIN COUNTY
Asotin County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Chairperson of the Board of Commissioners
Housing Authority of Asotin County
Clarkston, Washington

We have audited the financial statements of the Housing Authority of Asotin County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 26, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated August 26, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the housing authority complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the housing authority's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated August 26, 1996.

The management of the housing authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Purchasing
 - Payroll
 - Inventory control
 - Property, plant, and equipment
- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Eligibility
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Receivables
 - Accounts payable
 - Receiving
 - General ledger
- **General Requirements**
 - Davis-Bacon Act
 - Relocation assistance and real property acquisition
 - Subrecipient monitoring

- **Specific Requirements**
 - Types of services
 - Matching, level of effort, earmarking
- **Amounts Claimed Or Used For Matching**

During the fiscal year ended December 31, 1995, the housing authority expended 66 percent of its total federal financial assistance under major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the housing authority's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the housing authority's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we noted reportable conditions involving the accounting and/or administrative internal control structure and its operation that we believe to be material weaknesses as defined above. The conditions, which are identified in the Schedule of Federal Findings accompanying this report, were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the housing authority's compliance with requirements applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995, and this report does not affect our report thereon dated August 26, 1996.

This report is intended for the information of management and the chairperson of the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 26, 1996

HOUSING AUTHORITY OF ASOTIN COUNTY
Asotin County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified By The Former Executive Director

Our audit of the financial records of the Housing Authority of Asotin County revealed that at least \$13,503 in public funds was misappropriated by the former executive director (the director) during the period April 14, 1994, through March 31, 1996. The director resigned his employment with the housing authority on March 31, 1996, to pursue other employment opportunities. The misappropriation was discovered subsequent to his resignation. Accounting records were falsified in an attempt to conceal these losses from the board of commissioners. Federal funds were involved in this case. These funds were misappropriated as described below.

- a. The director retained custody of the housing authority's laptop computer when he resigned on March 31, 1996. While the computer was purchased for \$3,350, the director had it upgraded at a cost of \$680 prior to his resignation. This equipment was purchased with federal funds.
- b. The director received \$4,310 in mileage reimbursements for the use of his personal car while he was already using a housing authority vehicle for official business purposes. These reimbursements for mileage were claimed from April 1994 through March 1996. These expenditures were paid with federal funds.
- c. The director issued a \$500 check on August 30, 1995, and a \$2,200 check on October 19, 1995, made payable to himself for the sale of computer equipment to the housing authority. These checks were issued from the Local Fund checking account and were not federal funds. The director prepared a voucher on January 5, 1996, to reimburse the Local Fund with funds from the Comprehensive Improvement Program. The invoices he provided for this purchase were from a nonexistent company.
- d. The director issued a \$100 check on November 30, 1994, and a \$431 check on August 23, 1995, made payable to himself from the Advance Travel Fund checking account. There was no supporting documentation for these expenditures. These transactions were not submitted nor approved by the board of commissioners. These expenditures were paid with federal funds.
- e. The director took a personal vacation in conjunction with a July 1995 conference he attended in Las Vegas, Nevada. However, all travel expenses for the trip were paid by the housing authority. During this trip, he used the housing authority's vehicle and credit card for unallowable purchases for himself and a companion. He was also reimbursed \$588 for personal vehicle mileage which was included in the

amount shown in paragraph "b" above. While he was paid his full salary for the entire vacation period, he did not use any annual leave. The value of this unrecorded annual leave was \$710. Additional disallowed expenses for meals and entertainment associated with this trip totaled \$950.

- f. The director used the housing authority's vehicle and credit card for non-business related travel in June 1995. The motel charge was \$63 for one night.
- g. The director spent \$209 in housing authority funds for window coverings in July 1995 and for other remodeling supplies in March 1996. These purchases were for his own personal use. These expenditures were paid with federal funds.

When housing authority employees confronted the director about these irregular expenditures, he agreed to repay these funds to the housing authority. The director later told the employees that he had reimbursed the housing authority for the expenditures. The director resigned his employment with the housing authority on March 31, 1996. The director has not reimbursed the housing authority for these expenditures and they were not deducted from his final payroll check.

In addition to the misappropriated funds described above, our audit disclosed unsupported or questionably supported meal, motel, and mileage expenditures of \$3,748 made by the director. We also noted unallowable expenditures of \$350 made by the director for alcoholic beverages, movie rentals, cellular phone calls, etc.

RCW 40.16.020 states:

Injury to and misappropriation of record. Every officer who shall mutilate, destroy, conceal, erase, obliterate, or falsify any record or paper appertaining to the officer's office or who shall fraudulently appropriate to the officer's own use or to the use of another person, or secrete with intent to appropriate to such use, any money, evidence of debt or other property intrusted to the officer by virtue of the officer's office, shall be punished by imprisonment in a state correctional facility for not more than ten years or by a fine of not more than 5 thousand dollars, or by both.

RCW 42.20.060 states:

Falsely auditing and paying claims. Every public officer, or person holding or discharging the duties of any public office or place of trust under the state or in any county, town or city, a part of whose duty it is to audit, allow or pay, or take part in auditing, allowing or paying, claims or demands upon the state or such county, town or city, who shall knowingly audit, allow or pay, or, directly or indirectly, consent to or in any way connive at the auditing, allowance or payment of any claim or demand against the state or such county, town or city, which is false or fraudulent or contains any charge, item or claim which is false or fraudulent, shall be guilty of a gross misdemeanor.

Article XI, Section 14, *Constitution of the State of Washington* states:

Private use of public funds prohibited. The making of profit out of county, city, town, or other public money, or using the same for any purpose not authorized by law, by any officer having the possession or

control thereof, shall be a felony, and shall be prosecuted and punished as prescribed by law.

RCW 42.23.070 states in part:

Prohibited acts. (Effective January 1, 1995.) (1) No municipal officer may use his or her position to secure special privileges or exemptions for himself, herself, or others

Office of Management and Budget Circular A-87 requires federal program costs to be "necessary and reasonable for proper and efficient performance and administration of Federal awards" and "authorized or not prohibited under State or local laws or regulations." Section 1120, C 2, states:

A cost is considered reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type of generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
- b. The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award
- d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal government.

Circular A-87, Attachment B, discusses selected items of cost. It states in part:

4. Alcoholic beverages. Costs of alcoholic beverages are unallowable.
18. Entertainment. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

US Department of Housing and Urban Development (HUD), *Low-Rent Housing Accounting Handbook* 7510.1, Chapter 4, page 9 states in part:

1. Travel Vouchers. Vouchers submitted for reimbursement of travel expenses shall state the purpose of the trip, per diem rate, the date and hour of departure, the date and hour of arrival, and the mode of travel, and shall set forth in detail the expenses for which reimbursement is being sought. When reimbursement for

use of a private automobile is requested on a mileage basis, the voucher shall show the points of travel (origin and destination) and mileage meter readings. When reimbursement is requested on an actual expense basis, receipted bills shall be furnished whenever such bills are customarily received. Travel expense reimbursement vouchers shall conform to the established travel regulations and shall contain a copy of or reference to the authorization to perform the travel.

The following internal control weakness allowed the director to conceal these losses without being detected by housing authority management.

- There was an inadequate segregation of duties and limited supervisory review of the director's duties.
- The director completely controlled the Advance Travel Fund and Local Fund checking accounts. The check registers were kept in a locked drawer in his desk and he had the only key to the drawer.
- The director's travel expense vouchers were not reviewed or approved by a supervisor. The director prepared, approved, and issued checks to himself to process travel expense reimbursements.
- The director prepared and approved the payroll time sheets and maintained his own leave balances.

We recommend the Housing Authority of Asotin County seek recovery of the misappropriated \$13,503 and related audit/investigation costs from the former executive director and their insurance bonding company, as appropriate. We further recommend the Washington State Office of Attorney General and the Asotin County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Insurance coverage for housing authority employees is as follows:

Insurer:	Housing Authority Risk Retention Pool
Type of Policy:	Fidelity Coverage (Employee Dishonesty)
Policy Number:	007-PLEAF
Dollar Amount:	\$100,000
Period of Coverage:	Continuous for audit period

We also recommend the Housing Authority of Asotin County review overall accounting controls, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

2. Public Funds Were Misappropriated By The Former Executive Director

Our audit of the financial records of the Housing Authority of Asotin County revealed that at least \$6,437.17 in public funds was misappropriated by the former executive director during the period November 22, 1995, through January 28, 1996. Federal funds were involved in this case. These funds were misappropriated as described below.

The director received dual compensation for his regular salary from the housing authority and for disability benefits from the Washington State Department of Labor and Industries (L&I). He filed an injury claim with L&I on November 22, 1995, for a work-related injury which occurred on November 15, 1995. He personally prepared the injury claim and used the name and signature stamp of another employee, without the other employee's knowledge, to complete Section 58 through 86 "Employer Information" of the F242-130-000(7/92) form. This section of the form represents the certification by the entity that an injury has occurred and it is required to be completed by someone other than the injured worker.

L&I paid \$5,231.92 in disability benefits to the director for the period November 22, 1995, through January 28, 1996, on claim number N588160. The housing authority also paid \$9,144.77 to the director for his regular salary during this same period of time. Only \$2,707.60 of that amount was allowable for payment to the director from housing authority funds according to calculations by L&I personnel. Thus, the director inappropriately received \$6,437.17 in compensation from the housing authority. In addition, the director did not remit any of the disability benefits he received from L&I to the housing authority as required by state law.

During the claim period, the director reportedly told housing authority officials and staff he would be working at home rather than at the office. However, he attended a housing authority conference in Seattle, Washington, during the period December 11-15, 1995, and was reimbursed \$292.50 in mileage for this travel.

The director circumvented housing authority policies and procedures. He handled all communications with L&I, approved his own payroll time sheets, signed and issued payroll checks to himself, and submitted the original claim to L&I using the signature stamp of another employee to validate the claim. As a result, the board of commissioners was not aware that the director was receiving dual compensation from L&I and the housing authority.

Title 51, *Revised Code of Washington* (RCW) provides authority and conditions for payment for disability benefits to injured workers by the State of Washington Department of Labor and Industries.

RCW 51.32.090 states in part:

Temporary total disability) Return to available work) When employer continues wages) Limitations. (1) When the total disability is only temporary, the schedule of payments contained in RCW 51.32.060 (1) and (2) shall apply, so long as the disability continues . . . (3)(a) As soon as recovery is so complete that the present earning power of the worker, at any kind of work, is restored to that existing at the time of the occurrence of the injury, the payments shall cease . . . (6) Should a worker suffer a temporary total disability and should his or her employer at the time of the injury continue to pay him or her the wages which he or she was earning at the time of such injury, such injured worker shall not receive any payment provided in subsection (1) of this section during the period his or her employer shall so pay such wages.

RCW 42.20.060 states:

Falsely auditing and paying claims. Every public officer, or person holding or discharging the duties of any public office or place of trust under the state or in any county, town or city, a part of whose duty it is to audit, allow or pay, or take part in auditing, allowing or paying, claims or

demands upon the state or such county, town or city, who shall knowingly audit, allow or pay, or, directly or indirectly, consent to or in any way connive at the auditing, allowance or payment of any claim or demand against the state or such county, town or city, which is false or fraudulent or contains any charge, item or claim which is false or fraudulent, shall be guilty of a gross misdemeanor.

We recommend the Housing Authority of Asotin County seek recovery of the misappropriated \$6,437.17 from the former executive director and their insurance bonding company, as appropriate. We further recommend the Washington State Office of Attorney General and the Asotin County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Insurance coverage for housing authority employees is as follows:

Insurer:	Housing Authority Risk Retention Pool
Type of Policy:	Fidelity Coverage (Employee Dishonesty)
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Period of Coverage:	Continuous for audit period

3. Internal Controls Over Fixed Assets Should Be Improved

In prior audits, we have recommended that authority officials develop a comprehensive system of accounting for general fixed assets and improve its detailed fixed asset records. The following improvements were noted during the prior audit:

- The detail information on individual assets by historical cost and location was entered into the general fixed asset subsidiary ledger.

Housing authority officials, while beginning the process, have not yet completed the system to provide adequate control over general fixed assets. Currently, the following areas need improvement:

- a. A physical inventory needs to be done.
- b. The detail information of assets purchased and replaced during the audit period through the current period needs to be entered into the general fixed asset subsidiary ledger.
- c. The subsidiary ledger should be reconciled to the general ledger control account.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, issued by the Office of Management and Budget, March 1988, requires in Subpart C, Section___.32(d)(1).

Property records must be maintained that include a description of the property, serial number or other identification number, the source of the property, who holds the title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, and any

ultimate disposition data including the date of disposal and sale price of the property.

The inadequate fixed asset accounting system is attributed to insufficient resources being allocated to remedy these ongoing internal control deficiencies.

We again recommend that accounting controls over fixed assets be improved.

Auditee's Response

In response to the concerns throughout the findings regarding the lack of internal controls and segregation of duties, housing authority management has already put in place new procedures to uphold its responsibility to protect the government's assets and to ensure the integrity and comprehensiveness of the data collected by its accounting system for use in financial reports. We are attempting to prevent any one individual from having the ability to both commit and conceal an irregularity. The Lindsey Software System accounting package that we use should more than adequately track all housing authority functions if used properly. Additional staff training in the use of the program will be provided if necessary.

In further response to the concerns throughout the statement regarding the lack of internal controls and supervision by the Board, the Board feels that it attempted, to the best of its ability, to keep track of the financial dealings of the agency. The Board feels very strongly that the alleged actions of the former executive director, if they occurred, constituted willful concealing of the self-dealing transactions from the Board in order to avoid detection. The Board feels that although there could be different controls, any employee who wishes to steal from an employer could figure out a method to do so. However, the Board has directed that the following changes are made or are in the process of being made:

- 1. Staffing changes have been made to include a bookkeeper. Services of an off-site accounting firm will be utilized to prepare end-of-year reports and review records on a quarterly basis to add another layer of control.*
- 2. No cash payments are accepted at the housing authority. All payments must be made by check or money order. Rent receipts are generated by the computer.*
- 3. All checking accounts are being reconciled on a monthly basis, with monthly reports of activities for each account going to the Board. The check registers for the Travel Fund and the Local Fund have been added to the computer database. Two signatures (the Executive Director and an authorized board member) are being required on all checks.*
- 4. A new Travel Request and Authorization form is being used which includes all of the requirements specified in the Low-Rent Housing Accounting Handbook.*
- 5. A new time sheet form is being used, requiring a supervisor's signature for approval. The board chairperson signs the Executive Director's time sheet. The bookkeeper is responsible for inputting payroll data and generating checks. Our computer program maintains leave balances.*
- 6. The Board is now reviewing invoices prior to payment of bills. A new practice is being put in place whereby committees will be appointed among members to review and provide oversight of financial transactions, including Section 8 payments, on a monthly basis. Section 8 tenant files will be chosen randomly and checked against payments being made to landlords.*

7. *Maintenance personnel will complete a current physical inventory of all fixed assets. Our Lindsey Software has the capability to track all activity if used properly. After the inventory is completed, the bookkeeper will input the data, track any activity and generate the necessary reports.*

In addition to the attempts to add internal controls and segregation of duties as outlined above, current housing authority practices will be continually evaluated to determine what changes need to be made to protect the integrity of the operation.

HOUSING AUTHORITY OF ASOTIN COUNTY
Asotin County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Questioned Costs

Grant	Costs Questioned	Explanation/ Reference
Low Income Assistance Program (CFDA 18.850)	\$15,326	Questioned costs for missing equipment, salary , entertainment, travel, vacation, and othe r unallowable charges. See Federal Finding 1 i n the Schedule of Federal Findings.
	<u>6,437</u>	Questioned costs for salary paid to injure d employee who also collected disability benefit s from the State of Washington Department o f Labor and Industries. See Federal Finding 2 i n the Schedule of Federal Findings.
	<u>21,763</u>	
Comprehensive Improvement Assistance Program (CFDA 14.852)	<u>2,409</u>	Questioned costs for equipment sold to th e authority by former executive director and fo r remodeling suppli es purchased for personal usage by former executive director. Federal Finding 1 in the Schedule of Federal Findings.
Total	<u><u>\$24,172</u></u>	